



State of Vermont  
**Public Service Board**

MEMORANDUM

To: The Hon. Deborah Markowitz, Secretary of State  
The Hon. Ann Cummings, Chair - Senate Finance  
The Hon. Ginny Lyons, Chair - Senate Natural Resources & Energy  
The Hon. Warren Kitzmiller, Chair - House Commerce  
The Hon. Robert Dostis, Chair - House Natural Resources & Energy  
Donald Milne, Clerk of the House  
David Gibson, Secretary of the Senate  
Bill Russell, Legislative Council  
Steve Klein, Joint Fiscal Committee  
Paul Donovan, Department of Libraries

From: James Volz, Chairman

A handwritten signature in black ink, appearing to be 'J. Volz', written over a horizontal line.

Re: 2006 Energy Efficiency Utility Program Revenues and Expenditures

Date: February 6, 2008

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In accordance with 30 V.S.A. § 209, the Public Service Board ("Board") is providing the Legislature with a final report on the Energy Efficiency Utility Fund ("Fund") for activity through December 31, 2006, and information summarizing the results of the activities paid for by the Fund during the year 2006.<sup>1</sup> These energy efficiency services were provided primarily by the Energy Efficiency Utility ("EEU"), which operates under the name "Efficiency Vermont";<sup>2</sup> however, the City of Burlington Electric Department ("BED") provided many of these services in its service territory.<sup>3</sup>

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<sup>1</sup> The statute reads as follows: "The board will annually provide the legislature with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section." 30 V.S.A. § 209(d)(3).

<sup>2</sup> Vermont Energy Investment Corporation ("VEIC"), a non-profit corporation, serves as the EEU under a contract with the Board. The Board selected VEIC in 2000, and again in 2005, through competitive solicitations.

<sup>3</sup> When the Board first created the EEU, it authorized BED to deliver many of the same services in its own service territory that the EEU provided throughout the rest of the state (for simplicity's sake, this report refers to these services as "EEU services").

As these reports show, both the EEU and BED are providing real benefits to the state's electricity consumers by reducing individual customers' electrical energy consumption and by reducing statewide electrical demand.

While the statute does not specifically require the Board to report on the activities of the EEU, I have included a report that summarizes the EEU's key accomplishments in 2006.<sup>4</sup> As stated in this report, the investments made by the EEU in 2006 will save Vermont a net present value of \$16,600,000 over the 11-year average lifetime of the investments (\$45,000,000 in net present value benefits minus \$28,400,000 in 2006 investments). Business customers received approximately 41 percent of the benefits of the EEU's services in 2006, while residential customers received approximately 59 percent of the benefits. The kilowatt-hours saved by the EEU cost Vermont electric consumers approximately 3.6 cents per kilowatt-hour, which is approximately 35 percent of what utilities would have paid for a comparable electric supply in 2006. For more information about the EEU's accomplishments, see the attached report written by Efficiency Vermont entitled "Efficiency Vermont: 2006 Executive Summary" (Tab 1).

Also attached are an excerpt from BED's 2006 Energy Efficiency Annual Report and a page entitled "Burlington Electric Total Resource Benefits" (both of which were prepared by BED) that summarize the results of BED's energy efficiency activities that were paid for by the Fund (Tab 2).<sup>5</sup> BED's calculations show that the investments in EEU services made by BED in 2006 will save Vermont a net present value of \$7,664,000 over the 12-year average lifetime of the investments (\$9,313,000 in net present value benefits minus \$1,649,000 in 2006 investments).<sup>6</sup> Business customers will receive approximately 73 percent of these savings, while residential customers will receive approximately 27 percent of the savings. The kilowatt-hours saved by BED's EEU services cost BED's ratepayers approximately 1.4 cents per kilowatt-hour.

Batchelder Associates, PC, the company under contract to the Board as the Fiscal Agent<sup>7</sup> for the Fund, engaged the firm G.W. Osterman & Co, PC, to perform an audit of the Fund. More detailed information on the Fund's revenues and expenditures is provided in the attached independent audit of the Fund for the year 2006 (Tab 3). A brief summary of the Fund follows.

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<sup>4</sup>The kilowatt-hour savings and benefit figures included in the EEU's 2006 Annual Report have been verified by the Vermont Department of Public Service as part of its evaluation activities.

<sup>5</sup>BED's Annual Report provides information on all of BED's energy efficiency activities, including the EEU services that are paid for by the Fund, and other activities that are paid for by BED customers through other funding mechanisms. The benefit and expenditure figures included in this report are only those attributable to BED's EEU services.

<sup>6</sup>Unlike the EEU's kilowatt-hour savings and benefit figures, BED's kilowatt-hour savings and benefit figures have not been independently verified.

<sup>7</sup>The Fiscal Agent provides the accounting services necessary to administer the Fund. These services include receiving funds collected by Vermont electric distribution companies, disbursing funds to pay approved invoices, managing any cash balances in the Fund, and reporting on Fund financial activities.

Total revenues collected by the Fund during calendar year 2006 were \$21,001,775 (including both revenues collected via the energy efficiency charge on electric customers' bills and interest income).<sup>8</sup> Total expenditures from the Fund during calendar year 2006 were \$16,896,428. Revenues exceeded expenditures primarily because of budget increases and changes in program direction. In response to new legislation (Act 61 in 2005, and Act 208 in 2006), in August 2006 the Board increased the EEU's budget for 2006, 2007, and 2008, and in September 2006 the Board determined that the EEU should "target" the budget increase, initially toward capacity reductions throughout the state, and ultimately in specified geographic areas. In the fall of 2006 the EEU began planning to deliver these new services, but actual delivery did not begin until 2007. It is expected that revenues and expenditures will be closely matched over the contract's life. Expenses paid by the Fund included:

- energy efficiency services provided by the EEU;
- EEU services provided by BED; and
- administrative costs such as the EEU Contract Administrator,<sup>9</sup> the EEU Fiscal Agent, and EEU monitoring and evaluation activities undertaken by the Department of Public Service.

The documents attached to this memorandum show (1) the Fund is being appropriately managed; and (2) the energy savings achieved by the EEU and BED in the past year benefitted all Vermonters, whether or not they participated in the EEU's or BED's programs.

Please keep in mind that, with this report, we are not reporting on all electric energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by the EEU and BED. Some electric utilities are implementing additional electric energy efficiency initiatives as part of distributed utility planning or as a service to their customers.

I am pleased to provide the legislature with this summary of EEU energy efficiency services delivered during 2006.

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<sup>8</sup>The revenue and expenditure figures in this paragraph are presented on an accrual basis. The Fund's cash balance as of December 31, 2006, was \$4,017,106.93.

<sup>9</sup>The EEU Contract Administrator assists the Board with the administration of the Board's contract with the EEU, including making recommendations on whether the EEU has achieved its contractually specified performance goals. The current EEU Contract Administrator is Michael Wickenden, who was selected via a competitive bidding process in 2002 and again in 2005.

Additional information about the various oversight activities related to the EEU that the Board and other entities conduct is available on the Board's website at:

<http://www.state.vt.us/psb/EEU/OversightActivities/EEUOversightActivities.htm>

This information includes, among other items:

- various reports produced by the EEU and by BED;
- financial reports such as the independent audit of the EEU Fund and the independent audit of VEIC (the contractor serving as the EEU);
- the most recent statutorily-required audit of the EEU program's cost-effectiveness;
- reports produced by the EEU Contract Administrator; and
- links to savings verification and evaluation reports produced by the Vermont Department of Public Service.

As always, please don't hesitate to contact me at the Public Service Board if you have any questions.

Encl.

cc: Department of Public Service  
Energy Efficiency Utility  
City of Burlington Electric Department  
EEU Contract Administrator

# Efficiency Vermont 2006

## Executive Summary

Efficiency Vermont solidified its track record of performance and innovation in 2006, establishing a sound basis for new directions and goals established by the Vermont Public Service Board. Efficiency Vermont increased participation in its major markets, initiated innovative community-based strategies, and built new partnerships. It was a year in which the Board, by increasing budget levels, further recognized energy efficiency as a least-cost resource to meet Vermont's electric power needs and improve electric system reliability. The year featured heightened public awareness of the value of energy efficiency and formal recognition by the regional transmission organization, ISO New England, for electricity savings produced by Efficiency Vermont and the region's "other demand resources." Efficiency Vermont is now uniquely positioned to pursue the new directions and goals established by the Board, and to participate regionally in delivering a landmark, cost-effective, and reliable mix of electrical energy resources.

### *Sustained Performance*

During 2006, Efficiency Vermont achieved level energy savings in all major markets as compared to its results 2005, except in business new construction. Once again, Efficiency Vermont expanded its customer base in more ways than had occurred in the previous year. In business markets, Efficiency Vermont initiated new methods of engaging customers as they increasingly recognized the value of energy efficiency in improving their economic performance. In new and existing homes, Efficiency Vermont continued to find new opportunities to work with retailers, manufacturers, contractors, and design professionals to encourage the use of energy-efficient lighting, appliances, and heating and cooling systems. In addition to producing savings for 2006, this market transformation effort has set the stage for increased performance in the years to come.

During 2006, Efficiency Vermont increased its effectiveness in delivering services while helping Vermonters save 56,000 MWh of electricity. Savings were slightly lower than in 2005 because of lower amounts of business new construction and slightly reduced sales of retail products.

Indicators of Efficiency Vermont's performance include:

- A 7% increase in summer peak demand savings to 9.6 MW, as compared to 2005.
- In 2006, each \$10,000 spent by Efficiency Vermont resulted in 38 MWh of savings, which is comparable to 2005 results.
- A reduction in statewide sales of electricity due to both efficiency measures and a warmer-than-normal winter.

### *New Community Initiatives*

Efficiency Vermont increased its efforts with local communities to address energy savings. This included targeted initiatives in specific towns, collaboration with local energy teams and specific outreach to the largest municipal users of electricity, water and wastewater facilities and schools.

- In Northfield and Hardwick, Efficiency Vermont began a community-wide effort to encourage broad civic participation in measures that would reverse the growth in energy use from 2006 through 2008. By the end of 2006, 30% of Northfield's electric customers

had already participated in efforts that led to achieving 23% of the community's energy reduction target. In Hardwick, participation was 37%, with 38% of the target energy reduction attained.

- Efficiency Vermont supported the Manchester Challenge, a community-based effort that resulted in the sale of approximately 42,000 compact fluorescent light bulbs over a six-month period. Given the small size of the community, this is an accomplishment that is unprecedented anywhere else in the country.
- Efficiency Vermont collaborated with the Vermont League of Cities and Towns, the Department of Public Service, Vermont School Energy Management Program, Burlington Electric Department, and Vermont Gas Systems to implement a U.S. Department of Energy Rebuild America Grant, which leveraged several other funding sources. The grant was designed to build partnerships among local governments, schools, and efficiency service providers. This effort has resulted in more than 100 energy audits of school and municipal buildings and approximately 75 completed Efficiency Vermont projects, totaling 1,700 MWh in savings. The project also facilitated development of more effective strategies for working with Vermont communities.
- In the spring of 2006, Efficiency Vermont supported a project at Middlebury College, in which students directly installed compact fluorescent light bulbs (CFLs). This led to an Efficiency Vermont-sponsored, statewide "Collegiate Change a Light Challenge" in the fall, the first initiative of its kind in the nation. The challenge resulted in the installation of more than 4,400 CFLs at 17 campuses across Vermont.

#### *Enhanced Ability to Serve Existing Markets*

During 2006, Efficiency Vermont deepened the energy savings in existing business facilities and homes and in new commercial and residential construction through a variety of new approaches and strategies. Among these were:

- Efficiency Vermont's annual Better Buildings by Design Conference, now recognized as the region's premier design and construction conference, featured interactive learning about building durability, efficiency, and value. The conference drew a record 1,200 participants, a 19% increase from 2005. Sixty percent of the attendees were first-time participants.
- Within the business market, Efficiency Vermont implemented concentrated efforts in specific arenas in which support of more energy-efficient equipment, processes, and design could lead to significant savings potential. A concentration on compressed air measures led to 33 projects at 29 facilities and resulted in 3,500 MWh in savings. This year's publication and distribution of a technical brief, *Reduce Energy Use in Commercial Kitchens*, will help business customers reduce electricity costs and other energy costs associated with food preparation.
- During 2006, Efficiency Vermont initiated a concerted approach focusing on the 65 commercial and industrial customers that use over 1 MW on electricity on a single meter. As a result, Efficiency Vermont Account Managers are increasingly being brought into corporate-level discussions regarding energy efficiency with these customers. They are also actively participating in the collaborative identification of opportunities and the development of plans to reduce electrical operating costs.
- Efficiency Vermont is being honored by the U.S. Environmental Protection Agency with a national ENERGY STAR award for Excellence in Home Improvement in recognition of its 2006 efforts with existing homes. The award commends Efficiency Vermont's "strategy to build and promote a market infrastructure that has the building-science expertise necessary to address consumer needs."

### *Opportunities and Challenges*

The two most significant developments affecting Efficiency Vermont's potential for growth in 2006 and beyond were the Public Service Board's substantial increase in the energy efficiency utility's budget levels for the contract period through 2008 and the inclusion of demand-side resources in the ISO New England Forward Capacity Market. These external developments created significant new opportunities for Efficiency Vermont.

The Board issued an order in August that significantly increased the EEU budget. This led to expanded efforts to ramp up activity to meet these new and ambitious savings goals. A subsequent Board order presented a new requirement to achieve energy and capacity reductions in targeted geographic regions.

In December, Efficiency Vermont activities were approved for Market Participant status with ISO New England. That designation provides Efficiency Vermont with an additional opportunity to participate in decisions regarding the regional electricity market. Market Participant status also allows Efficiency Vermont to receive payment from the ISO New England Forward Capacity Market for the system demand reductions that Efficiency Vermont provides to the region.

During 2006, Efficiency Vermont's performance in two important markets was less than expected with respect to the annual savings achieved. This shortfall in performance caused Efficiency Vermont to examine these markets more closely, improve information feedback processes, and, in some cases, revise projections accordingly. The markets and the lessons learned were:

- Retail Products — Sales and savings associated with retail lighting products were less than expected for the year. Several factors are likely to account for this, the chief one of which was a reduction in July in the coupon value for CFL rebates. In the past, lower incentives did not slow the market down. This year, however, it appears that lower incentives, combined with market circumstances, reduced participation and sales of efficient lighting products. Increased national demand for lighting products delayed implementation of wholesale buy-downs planned for the second half of the year. In addition, the percentage of total retail lighting products used in commercial applications decreased, compared with 2005, which resulted in significantly lower savings per product in 2006. Plans for 2007 will include key strategies for increasing retailer participation, more in-store promotions, and year-round use of buy-downs. Efficiency Vermont also intends to implement more timely feedback mechanisms regarding sales.
- Business New Construction — Although the number of business new construction projects assisted by Efficiency Vermont increased slightly in 2006 compared with the previous year, the savings per project decreased from an average of 71 MWh in 2005 to 49 MWh. This decrease appears to be due primarily to a reduction in the size and scope of commercial construction projects. Efficiency Vermont may revise its expectations for 2007 in light of these findings.

### *Increased Awareness of Energy Efficiency*

Efficiency Vermont continues to promote energy efficiency as a cost-effective way to address Vermont's long-term energy supply as well as rising costs and environmental impact. The year 2006 may come to be remembered as a tipping point, when Americans broadly acknowledged that global warming is a reality that requires significant and meaningful action if it is to be stabilized or reduced. Throughout the year, more and more Vermonters sought Efficiency

Vermont's assistance in reducing their electricity use and providing general advice about efficiency. Some examples follow:

- The Efficiency Vermont Web site experienced a 44% increase in traffic over the previous year's traffic, with more than 232,000 visits by more than 110,000 visitors. The average visitor spent 11 minutes at the site, which is well above the industry average for comparable sites.
- Media coverage included 614 placements in print, on television and over the airwaves. The increasingly popular "Ask Rachael" column now appears in 15 community newspapers and one daily. It is one of the most consulted pages on the Web site, and experienced a fourfold increase in customer service inquiries. The column generates nearly two-thirds of our customer service e-mails.

#### *Continued Value for Vermont's Ratepayers*

Overall, Efficiency Vermont continues to demonstrate the value of energy efficiency for the state, its ratepayers, and the environment. Efficiency Vermont's efforts have saved energy and dollars, helped to reduce the state's greenhouse gas emissions, and provided significant economic value. Across the seven-year history of Efficiency Vermont, cumulative savings have risen to 318,000 MWh. This translates to a carbon reduction of 187,000 metric tons.

During 2006, our efforts resulted in a \$5,900,000 reduction in Vermonters' retail energy costs. Forty-one percent (41%) of these costs were saved by more than 685 businesses, with the remainder reflecting savings in Vermont homes.

#### **Stimulating Vermont's Economy: Net Lifetime Economic Value for 2006**

Benefits	<u>\$45,000,000</u>	Lifetime economic value of efficiency investments
Minus Costs	<u>\$14,800,000</u>	Costs paid for by investments through Efficiency Vermont
	<u>\$13,600,000</u>	Costs paid for by participant and third-party investments
	<u>\$28,400,000</u>	Total costs
Equals Net Benefits	<u>\$16,600,000</u>	Net lifetime economic value to Vermont

In 2006, Efficiency Vermont's total expenditures were approximately 3.7 cents per kWh for energy efficiency resources that reduce Vermont's annual need for electricity generation by 56,000 MWh, 9.6 MW at summer peak and 8.6 MW at winter peak. This cost per kWh does not include participating customers' additional costs and savings, such as customer contributions to the costs of efficiency measures and customer costs or savings associated with fossil fuel use, water use, and/or building operation and maintenance. Including these other costs and savings brings the net resource cost of saved electric energy to 3.6 cents per kWh. To supply the same energy and capacity over the average 11-year life of efficiency measures installed in 2006, Vermont utilities would have to spend, based on current values of avoided costs, 10.4 cents per kWh.

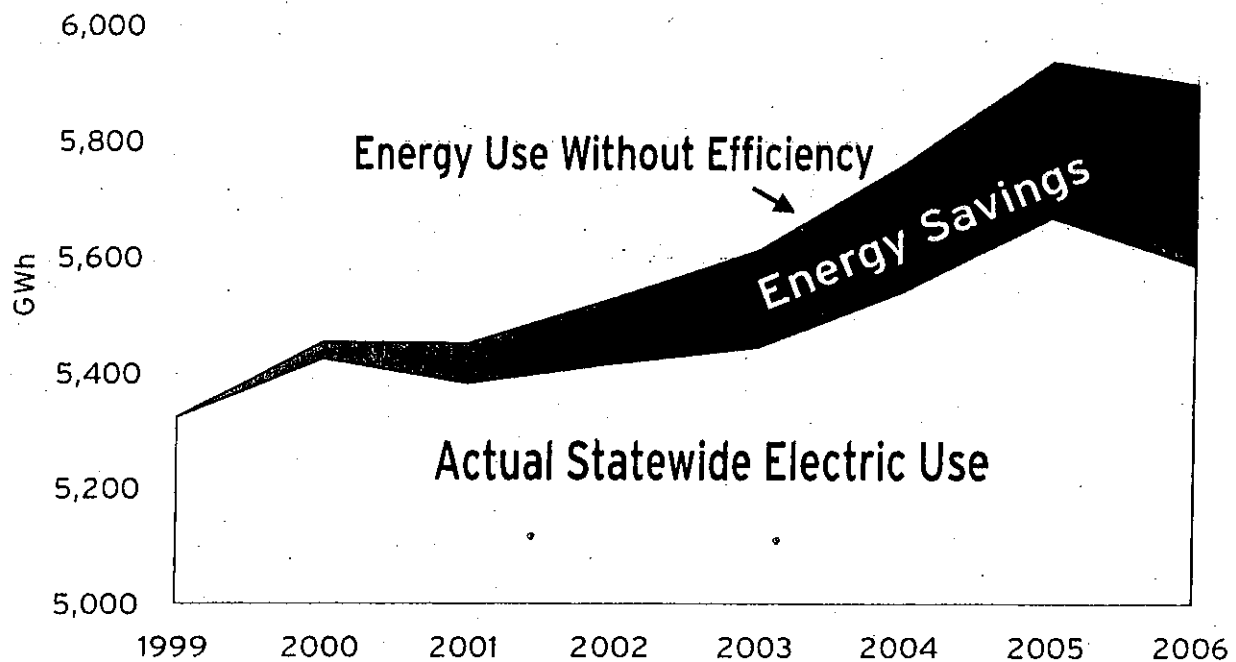


## Efficiency Vermont Costs, MWh Savings, and Yield: 2000-2006

Year	Efficiency Vermont Costs	Incremental Annual MWh Savings	MWh Savings/ \$10,000 invested
2000	\$5,598,000	23,500	41.98
2001	\$8,803,000	37,500	42.60
2002	\$10,982,000	40,600	36.97
2003	\$12,958,000	51,200	39.51
2004	\$13,993,000	51,900	37.09
2005	\$15,096,000	57,100	37.82
2006	\$14,839,000	56,100	37.81

Efficiency Vermont's savings continue to have an impact on statewide electrical load growth. It is estimated that without the savings attributed to Efficiency Vermont, statewide electricity requirements would have grown at an average rate of 1.4%. Efficiency Vermont savings cut this rate by two thirds, to 0.5%.

## Impact of Efficiency Vermont on Growth in Statewide Annual Electrical Use



By the close of 2006, the portion of Vermont's electrical energy needs being met through all savings delivered by Efficiency Vermont had grown to 5.3%. This meets a significant portion of the state's resource needs, effectively equivalent to what could be considered Vermont's fifth-largest utility.

Efficiency remains the state's least-cost energy resource: It reduces contributions to greenhouse gases, it is good for economic development, and it is good for the environment. Energy efficiency is now a major contributor in meeting energy needs and has demonstrated the ability to play an even larger role as part of the state's and the region's energy resource mix for the future.

VERMONT PUBLIC  
SERVICE BOARD

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Burlington Electric Department  
2006 Energy Efficiency Annual Report



## Overview of EEU Services Results

Overall in 2006, the EEU services that BED implemented in partnership with Efficiency Vermont greatly exceeded annualized mWh targets. BED projected 3,074 annualized mWh savings and achieved 6,667 annualized mWh. This is largely due to the completion of several large commercial projects that had been in the planning stages in prior years. BED spent \$913,985 in 2006, which is about 2% more than the projected budget of \$897,185. In total, BED's EEU Services implementation saved 6,667 mWh of energy annually from installed measures that will result in 80,856 mWh savings over the equipment's useful life.

BED's cost per annualized mWh saved for 2006 was 53% lower than estimated. BED estimated \$292 per annualized mWh saved, but achieved \$137 per annualized mWh saved. BED's administrative costs as a percentage of total program costs remained consistent with historical performance: about 20% of the budget was used to defray program operation costs including marketing efforts.

In the first seven years of the Energy Efficiency Utility both organizations have exceeded savings estimates and have done so at a lower cost per mWh than anticipated. Energy efficiency is now being delivered at a total cost of about \$.03 to \$.04 per kilowatt-hour statewide. When compared with other energy sources, energy efficiency remains the state's best bargain for future supply. Avoiding electric generation also avoids the associated air emissions and other environmental impacts that impact Vermont and the region.

BED looks forward to working with the EEU, Contract Administrator and DPS on the challenges and rewards that the ISO-NE Forward Capacity Market presents to Vermont.

2005	January - December	Actual	Actual	Actual	Projected	Projected	Actual
Business and Residential EEU Programs	Actual	2005	2006	2006 (2)	2007	2007	Program to Date (3)
# of Participants with installations (4)	1779	2038	1489	1584	N/A	N/A	5367 b
# of Participants with audit/analysis (5)	202	821	N/A	N/A	N/A	N/A	N/A
# of audits/analyses w/ pending action (6)	29	70	N/A	N/A	N/A	N/A	N/A
# of audits/analyses with installations (7)	173	751	N/A	N/A	N/A	N/A	N/A
<b>Program Costs</b>							
BED Costs (8)							
Administration (9)	\$829,186	a	\$913,965	\$997,185	\$1,153,898		\$15,049,511
General (10)	\$192,166	a	\$182,303	N/A	N/A		\$2,848,648
Implementation (11)	\$81,062		\$83,855	N/A	N/A		\$2,089,838
Program Planning (12)	\$56,409		\$43,192	N/A	N/A		\$338,822
Marketing (13)	\$2,537		\$7,446	N/A	N/A		\$27,199
IT Development (14)	\$37,817		\$26,158	N/A	N/A		\$297,175
Implementation Costs (15)	\$14,341		\$21,651	N/A	N/A		\$171,478
Services to Participants (16)	\$342,247		\$349,976	N/A	\$0		\$4,025,463
Services to Trade Allies (17)	a	\$342,247	\$0	\$0	N/A		\$4,013,702
Incentive Costs (18)	\$294,773		\$381,706	N/A	\$0		\$11,761
Incentives to Participants (19)	\$293,415		\$380,060	N/A	N/A		\$5,475,400
Incentives to Trade Allies (20)	\$1,358		\$1,646	N/A	N/A		\$5,455,778
Total Participant Costs (21)	\$970,438		\$735,468	N/A	N/A		\$15,343,311
Total Third Party Costs (22)	N/A		N/A	N/A	N/A		N/A
Evaluation Costs (23)	\$5,904		\$4	N/A	N/A		N/A
<b>Total Program Costs (24)</b>	<b>\$1,865,521</b>	<b>a</b>	<b>\$1,847,738</b>	<b>\$97,185</b>	<b>\$1,153,898</b>		<b>\$30,630,051</b>
Total Measure Costs (25)	\$1,799,623	a	\$1,649,453	N/A	N/A		\$30,392,821
Total Cost of Services (26)	\$1,312,685	a	\$1,085,445	N/A	N/A		N/A
<b>Benefits</b>							
Annualized mWh (27)	4,944		4,637	1,172	1,303		74,597
Lifetime mWh (28)	68,484		81,804	N/A	N/A		1,083,486
Winter Coincident Peak kW (29)	551		800	N/A	N/A		11,363
Summer Coincident Peak kW (30)	534		797	N/A	N/A		7,051
Annualized mWh/Participant (31)	3		3	2	2		13
Weighted Lifetime (32)	15		12	N/A	N/A		15

End Use	# of Participants (33)	Utility mWh Saved (35)	Customer mWh Saved (36)	Annual Lifetime mWh (34)	Utility Winter cp-kW Saved (37)	Utility Summer cp-kW Saved (38)	Other fuel mMBtu Saved (39)	Water ccf Saved (40)
Air Conditioning Efficiency	234	264.12	282.04	4,189.48	29.62	94.63	0.00	-100.00
Cooking and Laundry Efficiency	211	45.51	40.57	635.58	12.35	9.01	52.72	1,051.93
Hot Water: Fuel Switch	62	21.98	18.83	190.63	4.56	2.86	0.00	234.20
Industrial Process Efficiency	75	177.06	269.70	2,192.88	97.78	61.94	-1,227.25	0.00
Lighting	1	26.33	22.31	526.62	14.33	19.48	0.00	0.00
Motors	1,670	4,262.48	3,785.79	54,031.78	595.21	599.32	-7,299.75	0.00
Refrigeration	10	1,290.63	1,135.57	14,787.51	0.14	0.18	0.00	0.00
Space Heat: Efficiency	130	87.59	80.40	1,295.06	16.31	7.53	0.00	0.00
Space Heat: Fuel Switch	24	14.39	12.89	258.95	1.94	0.68	34.50	0.00
Ventilation Only	11	78.16	74.53	1,380.48	25.21	0.08	-264.64	0.00
Water Conservation	81	215.03	188.05	2,210.29	1.64	1.65	-1,056.00	0.00
Other: Efficiency	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other: Fuel Switch	42	184.03	157.08	104.91	1.01	0.00	102.85	0.00
	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>		<b>6,667.32</b>	<b>6,067.77</b>	<b>81,804.16</b>	<b>800.10</b>	<b>797.35</b>	<b>-9,657.57</b>	<b>1,186.13</b>

n/a = not applicable

N/A = Data/Information is Not Available

a = Corrected Value

b = Current Unique Participants for the lifetime of the program are unavailable due to program restructuring init.

1 expected to be available for 2007



## Burlington Electric Total Resource Benefits EEU Programs

	2006	Lifetime (Present Value)
Average Rates \$/kWh	\$0.1032	
<i>Business</i>	\$0.1190	
<i>Residential</i>	\$0.1230	
MWh saved	6,667	81,804
<i>Business</i>	5,600	71,798
<i>Residential</i>	1,067	10,006
Avoided Cost of Electricity	\$797,681	\$6,472,555
<i>Business</i>	\$666,391	\$5,583,854
<i>Residential</i>	\$131,290	\$888,701
1.) Annualized Water Savings \$	\$10,463	\$69,404
a.) <i>Business</i>	-\$882	-\$7,391
a.) <i>Residential</i>	\$11,345	\$76,795
1.) Other Fuel MMBtu Savings \$	-\$85,981	-\$701,148
a.) <i>Business</i>	-\$73,991	-\$619,993
a.) <i>Residential</i>	-\$11,989	-\$81,155
2.) Reported Capacity Cost Savings	\$457,537	\$3,452,022
a.) <i>Business</i>	\$220,436	\$1,847,090
a.) <i>Residential</i>	\$237,101	\$1,604,932

	2006	
Annualized Energy Savings (kWh): Total	Meter	Generation
Winter on Peak	1,446,383	1,585,139
<i>Business</i>	1,133,365	1,277,458
<i>Residential</i>	313,018	307,681
Winter off Peak	342,107	372,247
<i>Business</i>	261,554	290,958
<i>Residential</i>	80,553	81,289
Summer On Peak	2,604,137	2,878,194
<i>Business</i>	2,205,860	2,482,973
<i>Residential</i>	398,277	395,221
Summer off Peak	1,675,132	1,831,728
<i>Business</i>	1,391,108	1,548,533
<i>Residential</i>	284,024	283,196
Coincident Demand Savings		
Winter	765	800
<i>Business</i>		487
<i>Residential</i>		313
Spring-Fall	742	759
<i>Business</i>		475
<i>Residential</i>		284
Summer	745	797
<i>Business</i>		558
<i>Residential</i>		239

	2006	
	Gross	Net Lifetime Savings
Annualized Water Savings ccf	1,186	14,794
<i>Business</i>	-100	-2,000
<i>Residential</i>	1,286	16,794
a.) Other Fuel MMBtu Savings (Increase)	-9,658	-131,279
<i>Business</i>	-8,170	-114,317
<i>Residential</i>	-1,488	-16,961

a.) Burlington DHW fuel type distribution used

1) Cost information from DPS Screening Tool v2005b

2) Includes generic capacity cost savings and coincident peak demand cost savings from the DPS Screening tool v2005b

**VERMONT ENERGY EFFICIENCY  
UTILITY FUND  
INDEPENDENT AUDITOR'S REPORT  
For the Years Ended  
December 31, 2006 and 2005**

**G.W. Osterman & Co, P.C.  
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VERMONT ENERGY EFFICIENCY  
UTILITY FUND

Financial Statements With  
Independent Auditors' Report for the Years Ended  
December 31, 2006 and 2005

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**Independent Auditors' Report**

Vermont Public Service Board  
Montpelier, Vermont

We have audited the accompanying balance sheets of the Vermont Energy Efficiency Utility Fund (VEEUF), a special reserve fund of the State of Vermont administered by Batchelder Associates, PC as of December 31, 2006 and NECA Services, Inc. (NECA Services), as of December 31, 2005, and the related statements of revenues, expenditures and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the VEEUF and do not purport to, and do not, present fairly the financial position of the State of Vermont as of December 31, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VEEUF as of December 31, 2006 and 2005, and the changes in fund net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2007 on our consideration VEEUF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*G. W. Osterman & Co, PC*

August 17, 2007  
Barre, Vermont

Vermont License No. 92-0000338

## VERMONT ENERGY EFFICIENCY UTILITY FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDING DECEMBER 31, 2006

This section of the Vermont Energy Efficiency Utility Fund's annual financial report represents our discussion and analysis of the VEEUF's financial performance during the fiscal year that ended on December 31, 2006. It should be read in conjunction with the VEEUF's financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

- The VEEUF unreserved fund balance as of December 31, 2006, was \$5,580,118 versus \$1,474,771 at December 31, 2005
- The VEEUF's fund balance increased by \$4,105,347 and \$587,005 respectively during the 2006 and 2005 fiscal years as a result of fund assessments exceeding fund expenditures from electric distribution utilities
- VEEUF actual expenditures for 2006 were 10.72% below budgeted levels due to a lower than anticipated level of programmatic support requests during the current fiscal year

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include **notes** that explain some of the information in the financial statements and provide more detailed data.

Total disbursements to the eight programs comprising the VEEUF decreased by approximately 5.94% from the prior year, from \$15,037,456 in 2005 to \$15,803,462 in 2006. As of December 31, 2006, the VEEUF had net receivables of \$1,457,590 consisting primarily of receivables from contributors of \$4,202,178, payable to programs of \$1,903,980, payable to contributors for uncollectibles of \$83,463, accounts payable and accrued expenses of \$616,400 and taxes payable of \$140,745. This compares to a net negative net receivable of \$140,856 as of December 31, 2005, which consisted primarily of receivables from contributors of \$3,337,229, payable to programs of \$1,981,229, payable to contributors for uncollectibles of \$65,463, accounts payable and accrued expenses of \$1,286,529 and taxes payable of \$144,864.

As was the case in prior years, the VEEUF maintained an adequate cash flow and balance of funds to satisfy all obligations.

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**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards***

To: Vermont Public Service Board  
Montpelier, Vermont

We have audited the financial statements of the Vermont Energy Efficiency Utility Fund as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated August 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Vermont Energy Efficiency Utility Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Vermont Energy Efficiency Utility Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Vermont Energy Efficiency Utility Fund's financial statements that is more than inconsequential will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Vermont Energy Efficiency Utility Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Vermont Energy Efficiency Utility Fund in a separate letter dated August 17, 2007.

This report is intended solely for the information and use of the Fiscal Agent, Contract Administrator, Vermont Public Service Board, and the State Auditor's Office of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

*G. W. Osterman & Co, PC*

August 17, 2007  
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENT OF FINANCIAL POSITION  
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 4,122,528	\$ 1,615,627
Accounts receivable:		
Receivable from energy distributors	4,202,178	3,336,849
Other receivables (interest)	<u>0</u>	<u>380</u>
Total Current Assets	<u>8,324,706</u>	<u>4,952,856</u>
 TOTAL ASSETS	 <u>\$ 8,324,706</u>	 <u>\$ 4,952,856</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable for energy programs	\$ 1,903,980	\$ 1,981,229
Payable to energy distributors for uncollectibles and overpayments	83,463	65,463
Accounts payable and accrued expenses	616,400	1,286,529
Taxes payable	<u>140,745</u>	<u>144,864</u>
TOTAL CURRENT LIABILITIES	2,744,588	3,478,085
Fund Balance - Unreserved:		
Designated for contractual customer commitments	911,379	1,115,537
Designated for DPS monitoring	747,882	343,404
Undesignated	<u>3,920,857</u>	<u>15,830</u>
TOTAL FUND BALANCE	<u>5,580,118</u>	<u>1,474,771</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 8,324,706</u>	 <u>\$ 4,952,856</u>

See accountant's report and notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2006 and 2005

	2006	2005
REVENUES:		
Assessments (Note 1)	\$ 20,953,470	\$ 18,484,115
Interest income	48,305	39,793
Total Operating Revenues	<u>21,001,775</u>	<u>18,523,908</u>
EXPENSES:		
Energy programs (Note 2)	15,037,456	15,803,462
Administrative costs (Note 4)	1,650,593	1,948,565
Taxes (Note 6)	208,379	184,876
Total Expenditures	<u>16,896,428</u>	<u>17,936,903</u>
EXCESS OF REVENUE OVER EXPENDITURES	4,105,347	587,005
FUND BALANCE - UNRESERVED, BEGINNING OF YEAR	1,474,771	887,766
FUND BALANCE - UNRESERVED, END OF YEAR	<u>\$ 5,580,118</u>	<u>\$ 1,474,771</u>

See accountant's report and notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENT OF CASH FLOWS  
December 31, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Energy Distributors	\$ 20,088,141	\$ 17,955,943
Payments for Energy Programs	(14,302,395)	(14,769,349)
Refunds to Energy Distributors for Uncollectibles	(83,463)	(60,189)
Payments for General Administration	(2,883,553)	(1,986,092)
Payments to Contract Administrator	(136,766)	(133,864)
Payments to Fiscal Agent	(11,250)	(51,346)
Payments for Taxes	(212,498)	(160,101)
Net cash provided (used) by operating activities	<u>2,458,216</u>	<u>795,002</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest	48,685	39,793
Net increase (decrease) in cash and equivalents	<u>2,506,901</u>	<u>834,795</u>
Cash and equivalents, beginning of year	1,615,627	780,832
Cash and equivalents, end of year	<u>\$ 4,122,528</u>	<u>\$ 1,615,627</u>
Reconciliation of increase (decrease) in fund balance to net cash:		
Provided by operating activities:		
Excess (deficiency) of revenues over expenditures	4,105,347	587,005
Less: Interest Income	(48,305)	(39,793)
Changes in operating assets and liabilities:		
Receivables	(865,329)	(594,581)
Payable for energy programs	6,214	461,685
Payable to energy distributors for uncollectibles and overpayments	(65,463)	6,231
Accounts payable and accrued expenses	(670,129)	349,681
Taxes payable	(4,119)	24,774
Net cash provided (used) by operating activities	<u>\$ 2,458,216</u>	<u>\$ 795,002</u>

See accountant's report and notes to financial statements.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies utilized by the Vermont Energy Efficiency Utility Fund (VEEUF), administered by NECA Services, Inc. (NECA Services) through December 31, 2005 and then by Batchelder Associates, PC, through December 31, 2006 in the preparation of the accompanying financial statements are summarized below.

**Organization**

In 1999, the State of Vermont established the VEEUF to fund ten core statewide energy efficiency programs. These programs include: commercial energy opportunities; commercial emerging markets; commercial and industrial customer credit; dairy farm program; multi-family and single family low-income programs; residential emerging markets; residential new construction; efficient products; and utility payments. In 2003, the programs were condensed into eight programs: business existing facilities; business new construction; customer credit; business initiatives; energy efficiency products; residential new construction; residential existing buildings; and residential initiatives.

Pursuant to 30 V.S.A. §209, the Vermont Public Service Board (VPSB) established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. Currently, there are twenty (20) distribution utilities assessing these charges and utilizing the programs.

In March, 2003, the VPSB entered into a contract with NECA Services to retain NECA Services as the fiscal agent of the VEEUF for the period January 1, 2003, through December 31, 2005. The VPSB entered into a contract with Batchelder Associates, PC to serve as the fiscal agent of the VEEUF for the period January 1, 2006 through December 31, 2008.

The year 2005 Energy Efficiency Utility (EEU) budget was set by the VPSB in a memorandum dated August 1, 2002. In that memorandum, pursuant to the terms of a Memorandum of Understanding in Docket 5980, the Board set the EEU budgets for each of the years 2003, 2004 and 2005. Subsequently, the VPSB amended that memorandum in Docket No. 6777 and changed the year 2003 budget. Pursuant to the terms of Docket 5980, the VPSB set the original EEU budget for 2006, 2007, and 2008. Budgets were subsequently revised in a VPSB Order issued August 2, 2006. In response to the budget revision the 2006 EEC charge was revised in a VPSB memo dated August 15, 2006.

**Special Reserve Fund**

The VEEUF is considered a special reserve fund of the State of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Vermont. Because the VEEUF is required by law to finance its activities with fees and charges rather than with taxes or similar revenue, the special reserve fund is presented as an enterprise fund.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Presentation**

These statements have been prepared on the modified accrual basis in accordance with Governmental Accounting Standards Board (GASB), for the periods presented. For the years ended December 31, 2006 and 2005 the VEEUF had accounting transactions in the unreserved fund balance only. The VEEUF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and amendments. GASB No. 34 as amended establishes standards for financial reporting for state and local governments.

**Cash and Cash Equivalents**

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to the VEEUF when earned and the investment rate averaged 1.98 and 3.13 percent during the years ended December 31, 2006 and 2005 respectively.

**Revenue Recognition**

Vermont electrical distribution utilities are required to assess their customers based on usage at a statutory rate. The assessments are then remitted to the VEEUF. It is the VEEUF's policy to recognize all self-assessments received within two months of the fiscal period. Any late remittances will be recognized in a subsequent period or periods.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Fund Balance Designations**

In accordance with National Council on Governmental Accounting Statement 1 (NCGAS 1) paragraph 120, contractual customer commitments and Department of Public Service funding set-asides for monitoring and evaluation of the VEEUF have been shown as a designation of fund balance in the statement of financial position. Designations represent financial resources available to finance expenditures which by their nature are tentative. Performance incentive contracts only result in payment after customers have made certain improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated and shown as a designation of fund balance in the statement of financial position. DPS monitoring and evaluation is budgeted for the three year contract period and prorated to designated fund balance each year. Actual monitoring and evaluation expenses may differ from the funding set-asides. The year ending December 31, 2006 is the first year of a 3-year contract; the undesignated fund balance remains available for efficiency program expenses during the next two years.



**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

**NOTE 2 - DISTRIBUTIONS TO ENERGY PROGRAMS**

Distributions to the Vermont Energy Investment Corporation (VEIC) and other qualified providers were made by Batchelder Associates, PC and NECA Services during the years ended December 31, 2006 and 2005, in accordance with the terms of their contracts or as directed by the contract administrator, with concurrence of the Vermont Public Service Board. The VEIC uses the disbursements to fund various programs.

Approximate amounts incurred by program (In Thousands) as of December 31, 2006 and 2005, are as follows:

<u>Program</u>	<u>2006</u>	<u>2005</u>
EVT (Efficiency Vermont):		
Business Existing Facilities	\$ 4,416	\$ 4,054
Business New Construction	2,007	2,700
Customer Credit	12	225
Customer Credit Net Pay Option	711	572
Business Initiatives	-	1,577
Energy Efficient Products	1,634	1,989
Residential New Construction	2,655	1,588
Residential Existing Buildings	2,688	2,263
 <u>BED (City of Burlington Electric Department):</u>		
Business Existing Facilities	354	268
Business New Construction	240	234
Residential New Construction	104	97
Residential Existing Buildings	127	120
Energy Efficient Products	89	116
	<u>\$ 15,037</u>	<u>\$ 15,803</u>

**NOTE 3 - RECLASSIFICATION OF CUSTOMER CREDIT NET PAY OPTION**

Customer credit net pay option expenses have been reclassified as program rather than administrative costs for the fiscal years ending December 31, 2005 and 2006. These costs are approved by the Energy Efficiency Utility contract administrator as acceptable program expenses for energy efficiency measures, efficiency educational activities for industrial employees, or energy efficiency technological studies. \$572,000 was reclassified from administrative to program costs in the fiscal year ending December 31, 2005. \$711,000 was expensed as customer credit net pay option program expense in FY2006.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

NOTE 4 - ADMINISTRATIVE COSTS (In Thousands)

General costs incurred by the VEEUF relating to the energy programs as of December 31, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
General Administration	\$ 728	\$ 498
Information Technology	494	498
Monitoring and Evaluation	262	754
Contract Administration	137	135
Fiscal Agent	11	49
Audit	17	14
EEU Advertising	2	1
Total	<u>\$ 1,651</u>	<u>\$ 1,949</u>

Pursuant to the contract between the Vermont Public Service Board and the Vermont Energy Investment Corporation, the VPSB proposed a performance-based award program for VEIC based on achievement of certain performance benchmarks designed to promote energy efficiency in the State of Vermont. The performance measurements span a period of three years from 2006 to 2008 with a total award for the three-year period potentially amounting to \$2,347,000. The maximum annual performance incentive of \$616,000 has been accrued in 2006 and is included in general administration above.

The maximum contribution of \$410,000 was accrued in 2005, 2004 and 2003; the 2005 accrual is included under general administration above. VEIC's achievement of contract performance benchmarks for 2003 through 2005 has been evaluated and the actual award of \$1,280,000 was approved and paid in July 2006.

NOTE 5 - FISCAL AGENT SERVICES CONTRACTS

Under the contracts between the VPSB, Batchelder Associates, PC, and NECA Services, the fiscal agents were reimbursed a fixed amount each fiscal year plus allowable variable expenditures, as defined. For the year ended December 31, 2006 Batchelder Associates, PC was reimbursed for variable expenses \$47 and \$11,250 for fixed expenses with additional variable expenses paid directly to the external auditor totaling \$7,500 in 2006. For the year ended December 31, 2005, NECA was reimbursed \$14,221 for variable expenses related to external audit fees and \$42,790 for fixed expenses. Additionally, in 2005, Batchelder Associates, PC was reimbursed \$4,029 for variable expenses and \$5,000 as a fixed amount for work related to the fiscal agent transition and the last two months of the fiscal year.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

NOTE 6 - INCOME TAXES

These financial statements present the activities of the VEEUF. The activities of the VEEUF are tax-exempt since the VEEUF is a special reserve fund of the State of Vermont, and therefore not subject to federal or state income taxes or other taxes besides the gross receipts tax and weatherization tax described in Note 6 below. As such, no provision for taxes other than the gross receipts tax and weatherization tax has been reflected in the accompanying financial statements.

NOTE 7 - OTHER TAXES

One-half percent of assessments collected in 2006 and 2005 are payable to the home weatherization assistance trust fund. Home weatherization assistance trust fund disbursements are made quarterly. Also, one-half percent of assessments collected in 2006 and 2005 are payable to the gross receipts tax fund, which is paid annually.

As of December 31, 2006 and 2005, the following was payable to the tax funds (In Thousands):

	<u>2006</u>	<u>2005</u>
Home Weatherization Assistance Trust	\$ 41	\$ 39
Gross Receipts Tax	100	106
Total	<u>\$ 141</u>	<u>\$ 145</u>

Expenditures (In Thousands) related to the years ended December 31, 2006 and 2005, were:

	<u>2006</u>	<u>2005</u>
Home Weatherization Assistance Trust	\$ 104	\$ 92.5
Gross Receipts Tax	104	92.5
Total	<u>\$ 208</u>	<u>\$ 185</u>

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Fund maintained its cash balances at several financial institutions during 2005 until all cash was transferred to the Chittenden Bank under the new fiscal agent, Batchelder Associates, PC. All cash balances were maintained at the Chittenden Bank in 2006. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Since the Fund maintains its cash balances at high quality credit institutions, it does not believe it is exposed to any significant credit risk on its cash balances. Additionally, a significant portion of the excess balances are "swept" into government securities on a daily basis under a repurchase agreement. Balances exceeded the FDIC insurable limit of \$100,000 by \$1,515,627 in 2005. All funds in excess of the insurable limit were backed by government securities in the sweep account in 2006.